Federal Accounting Standards: Close Enough for Government Work?

By David L. Cotton, CPA, CFE, CGFM

Now that I've captured your attention with the title, let me hasten to explain why I selected it. As G. Edward DeSeve was fond of telling us when he was Deputy Director for Management at OMB, the generally accepted meaning of the phrase close enough for government work has changed diametrically over the years.

The genesis of the phrase goes back to the World War II era when the country's industrial complex became the military-industrial complex. Shipbuilders, airframe assemblers, automotive corporations, and other companies united with the government in the war effort found themselves needing to meet new sets of specifications—military specifications, or Mil-Specs. These Mil-Specs were more strict and precise, requiring parts to be made with closer tolerances and higher degrees of quality than similar parts made for commercial use. Hence, during the quality control and inspection processes, an engineer might find a part intended for commercial use that was of particularly high quality and declare, "this one's close enough for government work."

Sometime during the past 50 years, the phrase took on the opposite meaning. Turned around, it now is used derisively to imply that if the work is for the government, it doesn't need to be exact—just close enough. As with the similar (but reverse) metamorphosis of the phrase Made in Japan, exactly how and when the meaning got turned around is unclear.

The Federal Accounting Standards Advisory Board (FASAB) is in a remarkable position to return close enough for government work to its original, positive meaning. This article will look at a few recent board actions and deliberations to illustrate some of the pressures the board faces and how it has responded to them. Three key issues FASAB studied in the past 2 years lend insight into its thinking and show how the board is struggling to come to grips with a key question: Should Federal accounting standards result in better, higher quality, more useful, and more meaningful financial statements and accountability reports than counterpart standards promulgated for use by non-government (FASB standards) and state and local government (GASB standards) entities?

We'll look at (1) the standard for recognition of contingent liabilities, (2) the proposed deletion of an obscure paragraph in the standard for revenue accounting, and (3) the attempt to amend the standard for accounting for defense plant property and equipment. Finally, we'll examine some of the implications of the American Institute of Certified Public Accountants' (AICPA) October 19, 1999, designation of FASAB as the body authorized to promulgate generally accepted accounting principles—GAAP—for Federal government entities.

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"More Likely Than Not"

The issue of contingent liability recognition is a good illustration of FASAB's recent focus. Having done a superlative job of promulgating a thorough core body of accounting standards during its first 6 years of existence, FASAB finds itself having to return to these core standards to deal with some unintended consequences. It also illustrates what FASAB faces when it tries to ratchet up standards in areas where other standard-setting bodies have already deliberated and acted.

Statement of Federal Financial Accounting Standards (SFFAS) Number 5, Accounting for Liabilities of the Federal Government, was issued in September 1995. In writing SFFAS No. 5, the board made a conscious decision to make one part of the standard more strict and precise than its FASB and GASB counterparts. Under FASB and GASB standards, a liability for a loss contingency must be recognized when the past event or exchange transaction makes a future outflow of resources probable and measurable. FASAB adopted the same requirement with one seemingly small difference. FASB and GASB defined probable as "likely to occur," whereas FASAB defined it as "more likely than not." On that small difference, a great deal of remedial energy has been expended.

In practice, likely to occur is generally interpreted as meaning somewhere in the range of an 85- to 90-percent probability, a fairly high threshold. On the other hand, more likely than not obviously means anything more than a 50-percent probability, a significantly lower threshold.

Part 2:

Donald Chapin is key FASAB member behind the decision to use more likely than not in place of *likely to occur*. Mr. Chapin had done considerable analysis of the collapse of the savings and loan industry during his last few years at the General Accounting Office (GAO). He believed that if ailing S&Ls had been required by accounting standards to disclose more about their contingent liabilities during the 1980s, the industry's fragile financial condition would have become evident sooner than it was, and the industry collapse might have been averted or, at least, its cost would not have been as great. Clearly, Mr. Chapin and a majority of the other board members at the time were trying to make federal accounting standards better, more exacting, more stringent, more revealing than their non-federal counterparts. It seemed like a great idea at the time. Many still think it is.

Three years later, however, an unintended consequence surfaced. A cabinet-level agency's general counsel was asked to provide the routine "lawyer's letter" communication to his agency's auditors required by Statement on Auditing Standards (SAS) Number 12, *Inquiry of a Client's Lawyer Concerning Litigation, Claims, and Assessments*. (Under SAS 12, an auditor's inability to obtain the required lawyer's letter is a scope limitation sufficient to preclude an unqualified opinion.) The auditors informed the general counsel that, under federal accounting standards, he was obliged to inform them of existing or pending litigation that was *more likely than not* to result in a loss to the agency. The general counsel pondered this briefly and said: "No way." He pointed out that such disclosures would (a) have significant detrimental impacts on pending litigation (plaintiffs could simply look to published financial statements to see how strong the agency thought its position was); (b) probably invite litigation (an entity considering litigation against the agency would certainly proceed if the agency's general counsel disclosed that he or she thought it more likely than not that the agency would lose); and (c) be deemed a waiver of attorney-client privilege. The general counsel also pointed out that, as an attorney, he was bound by neither the accounting standard nor the auditing standard. He also pointed out that the American Bar Association (ABA) adopted a delicate policy in 1976 concerning such disclosures based on the *likely to occur* meaning of probable.

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Part 3:

Not surprisingly, following a public hearing on the issue, an open forum with interested parties (including the ABA) and considerable deliberation, FASAB compromised. The board amended SFFAS No. 5 to "clarify" that the SFFAS's requirement to recognize loss contingencies *more likely than not* to result in a future outflow of resources did not apply to pending or threatened litigation. For threatened or pending litigation, FASAB decided to embrace the policy established by the ABA.

The *more likely than not* revisit and revision by FASAB is a good illustration of difficulties the board faced and will face as it tries to lift federal accounting standards to higher ground than their non-federal counterparts. If FASAB were the first standard-setting body, starting from scratch, it would be easier to establish higher-level standards. But with a long history of existing standards and generally accepted practice in the non-federal arenas, we can be sure that more unintended consequences will be addressed whenever FASAB tries to depart from the non-federal treatment in similar areas.

Material Revenue-Related Transactions

SFFAS Number 7, *Accounting for Revenue and Other Financing Sources*, was issued in April 1996 and became effective in FY 1998. One relatively obscure paragraph, 65.2, became problematic for the Internal Revenue Service (IRS).

Paragraph 65.2 requires financial statements to contain a fairly rigorous breakdown of revenue-related transactions affecting beginning and end-of-period balances of accounts payable for refunds and requires disclosure of uncollectible amounts. The paragraph requires, in part, that

> *the disclosure should be comprehensive enough to include as a minimum: self-assessments by the taxpayers (or importers); assessments by the entity; penalties; interest; cash collections; refunds, refund offsets, and drawbacks; abatements; accounts receivable written off during the reporting period as uncollectible; and the provisions made to the allowance for uncollectible amounts.*

During deliberations before issuance of the standard, no one (including IRS) said much about Paragraph 65.2. It certainly seemed like the type of critical financial information worthy of disclosure to Federal financial statement users.

Perhaps, because the standard did not become effective until FY 1998, IRS financial accountants took the first hard look at the requirement in the middle of FY 1997. They discovered that the IRS did not have accounting systems in place capable of generating—or even reconstructing—this required information. What to do?

IRS saw two choices: (1) resolve itself to getting qualified audit opinions for many years to come while attempting to develop systems capable of generating auditable information or (2) try to get FASAB to eliminate the requirement. Not surprisingly, IRS chose the less expensive solution and asked FASAB to simply delete Paragraph 65.2.

Part 4:

IRS mustered some valiant arguments in support of its proposal to eliminate Paragraph 65.2. It argued that the required information might be "potentially misleading," and that the "cost of developing and providing the information would outweigh its benefits." It almost worked.

The exposure draft containing FASAB's proposal to delete Paragraph 65.2 was issued in mid-November 1998 and asked for comments by December 12, 1998. Even by FASAB's fast-track process, this seemed to some like a remarkably short time to digest implications of the proposed change. By December 17, FASAB had received only 11 comments on the exposure draft: 5 commenters supported deletion of the paragraph; 5 commenters opposed deletion; and 1 commenter opposed deletion of the paragraph without a public hearing and more justification.

FASAB decided to hold a public hearing. Two board members made persuasive arguments opposing deletion of the paragraph. Both arguments had as their foundation the principle that Federal Accounting Standards should be the best possible, even if a short-term consequence was a delay in obtaining unqualified audit opinions. It is noteworthy that these two arguments came from non-government board members. Mr. Chapin spoke well in favor of his "alternative view" published with the exposure draft. He asserted that:

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Improving federal financial management was the essential purpose of the CFO Act. Accordingly, federal accounting standards should be set so that they result in adequate accounting information for the management and oversight of federal agencies. [Statement of Federal Financial Accounting Concept] No. 1 makes it clear that this is a major objective of federal financial reporting, and that the Board's role is to set standards which serve the information needs of Congress, federal executives and program managers, and citizens. FASAB has acted on this objective in the past; e.g. SFFAS No. 4 requires Managerial Cost Accounting Standards. This role distinguishes FASAB from other accounting standard setting bodies who are only concerned with the minimal standards necessary to prepare annual financial statements for the public. [I believe] that FASAB should continue to set standards which result in adequate accounting information for the management and oversight of federal agencies.

Similarly, Dr. Linda Blessing spoke up eloquently in opposition to deleting Paragraph 65.2. At the time of the hearing, Dr. Blessing was Secretary of the Arizona Department of Economic Security—the largest agency in the state. In her tenure, she engineered a remarkable turnaround in that agency's performance. She stated that she made the conscious decision to focus and insist on rigorous accounting, managerial control, and performance standards, even though that decision delayed for several years the agency's obtaining unqualified opinions on its financial statements.

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The sound and persuasive arguments of Mr. Chapin and Dr. Blessing won the day. FASAB voted to retain Paragraph 65.2, while granting IRS interim relief by agreeing to delay its required effective date for 3 years. Eventually, IRS will be required to make these important disclosures; but, it has been given more time to develop and refine the necessary systems that will generate the information.

This skirmish over a relatively obscure accounting requirement illustrates clearly the struggle FASAB members face and will continue to face. Political and media pressure and impatience have increased and will continue to increase in the face of disclaimers of opinion on the consolidated financial statements of the United States. The board will be challenged again and again to resist the temptation to relieve these pressures by dumbing down the standards. How the board reacts will determine the connotation close enough for government work will have as that phrase is applied to Federal Accounting Standards.

Part 5: **Should We Report $1 Trillion of Assets in the Financial Statement, or Should We "Think Outside the Box?"**

Unlike the debate over deletion of Paragraph 65.2, the debate concerning defense property, plant, and equipment (PP&E) was not a struggle over subtle or obscure nuance. The defense PP&E debate focused on key issues of profound importance—accountability over nearly $1 trillion of valuable assets. The two issues did have one similarity, however: the appearance that the driving force behind the proposed change was a desire to get to a clean audit opinion sooner. FASAB's struggle with the defense PP&E issue will not be remembered as its finest hour.

In February 1998, FASAB issued an exposure draft titled Amendments to Accounting for Property, Plant, and Equipment. It proposed making a number of relatively innocuous changes to two already-issued standards: SFFAS No. 6, Accounting for Property, Plant, and Equipment, and SFFAS No. 8, Supplementary Stewardship Reporting. Seemingly hidden in the 72-paragraph exposure draft was the following proposed change:
National defense PP&E shall be reported in quantities by major types …. Reporting should also include data in nominal dollars on acquisition costs incurred for national defense PP&E for the year being reported upon and the preceding 4 years.

Among the numerous other changes contained in the exposure draft, the impact of this "small" change might have become obscured and remained relatively unnoticed if not for one board member who presented an alternative view focused entirely on this particular proposed change. (If you guessed that this alternative-view board member was Mr. Chapin, you are correct!)

Under the original SFFASs No. 6 and No. 8, the dollar value of defense PP&E was required to be reported at either its historical "total cost" or its "latest acquisition cost valuation method." (Few really understood the meaning of "latest acquisition cost valuation method." Presumably, it allowed an agency to value all of a particular type of weapon system at whatever the last one purchased or built cost. So, if the last B-52 acquired cost $10 million, then each of the 75 B-52s still in the inventory would be valued at that amount. This valuation option recognized that determining the true, historical cost of individual assets acquired many years ago would be cost-prohibitive, if possible at all.)

Translating the proposed change into plain English yields the following proposed requirement: DoD must report (a) the numbers of weapon systems it has and (b) how much it spends on new weapon systems each year. One needs to ponder this for a moment to recognize that the impact of the change is the elimination of any need to determine, track and report the cost of particular assets.

Not surprisingly, many who commented on the exposure draft did not appear to grasp the full significance and importance of this part of the exposure draft. One commenter who did, however, was Senator Russell D. Feingold. (Disappointingly, Senator Feingold was the only member of the House or Senate who commented on the exposure draft. In fact, no member of an armed services committee or subcommittee commented on the draft.) Senator Feingold's comments on the 116-paragraph exposure draft focused solely on the defense PP&E issue. He said, in part,

Senator Feingold's said, *"As has been widely reported, the Defense Department's financial accounting is very much in need of help. That help, however, should not come in the form of relaxed standards. On the contrary, the Department must work harder to meet and exceed the existing standards."*

"I strongly oppose changing the financial accounting standards rule to permit the Defense Department to report only weapon quantities, not their total costs, as required by the current standards. As has been widely reported, the Defense Department's financial accounting is very much in need of help. That help, however, should not come in the form of relaxed

standards. On the contrary, the Department must work harder to meet and exceed the existing standards. The General Accounting Office recently reported that "the Navy did not have adequate records to document what it had, what it owed, or how much money it had spent." (GAO/AIMD-98-56) The report went on to identify "a minimum of $225 billion of errors in the $506 billion in assets, $7 billion in liabilities and $87 billion in operating expenses reported to the Department of Treasury." (Ibid.) In April, GAO reported that "no major part of DOD has been able to pass the test of an independent audit." (GAO/AIMD-98-127) Clearly, this is embarrassing to the Defense Department and the Federal Government. The logical response is to continue requiring open and accountable financial statements. Adoption of the proposed rule change moves in the opposite direction."

Part 6:

FASAB held a public hearing on the exposure draft on June 26, 1998, and virtually the entire day was devoted to discussing the defense PP&E valuation issue. FASAB heard testimony from eight panels. All but one testified against eliminating the defense PP&E valuation requirement. The single panel that spoke in favor of this proposed change was the panel of DoD representatives. That panel's arguments for dropping the valuation requirement were succinct: DoD managers do not need or use any weapon systems valuation information; it would cost $100 million to determine the value of all existing weapon systems; and DoD already provides current weapon systems cost information to Congress whenever requested to do so.

Noteworthy among panelists opposing the proposed change was Lisa Jacobson, Director of Defense Audits at the GAO. Ms. Jacobson appeared before the board as a private citizen rather than as a GAO representative, because GAO's policy is to not take an official position on matters deliberated by the board. Ms. Jacobson felt so strongly about the defense PP&E issue that she took the unusual step of asking to appear "unofficially." As the key individual responsible for auditing DoD, her views warranted particular board attention. Ms. Jacobson argued convincingly that requiring DoD to present weapon systems values on its financial statements was really a byproduct of a much more important concept. Requiring DoD to report auditable weapon systems value information meant that DoD would need to have in place a rigorous cost accounting system to generate reliable (auditable) value information. She argued that the systems and control discipline that the requirement inferred was what was important.

The panel representing AICPA reiterated Ms. Jacobson's position. One board member asked this panel if it was reasonable to require the government to spend $100 million dollars simply to determine the cost of existing weapon systems, some of which are 50 years old or more. The panel offered that this clearly would not be a wise expenditure, but that the proper focus should be on today forward—start today to keep and report careful and accurate cost information—and suggested that the board could issue a standard that allows DoD to "grandfather" existing weapon systems.

Once again, Mr. Chapin spoke cogently in support of his "alternative view" position. The core of his concern, like that of Ms. Jacobson, was that allowing DoD to avoid the need to maintain cost accounting information would greatly undermine efforts to impose sound systems and control requirements on the government.

What happened next illustrates a fundamental difference between FASAB and its non-federal standard-setting counterparts. Concerned groups took it upon themselves to make sure that key members of Congress were (finally) made aware of the impact of the change.

In the face of seven of eight panels plus Mr. Chapin arguing against adoption of the change, few board members commented in strong support of the change. One noteworthy comment supporting the proposed change was that this change would illustrate FASAB's ability to think "outside the box." (I recall thinking at the time that, although "thinking outside the box" may in fact be fashionable, one ought to at least try to keep the box within sight. The idea of not reporting about $1 trillion of valuable assets in the government's financial statements is simply too far outside the box to be a sound concept, I thought.)

The outcome of this issue has taken several surprising twists and turns. The board struggled with the issue and finally decided to adopt the proposed change despite the overwhelming expressions of opposition. But the board also decided to "further study the needs for and usefulness of national defense PP&E information" and "establish a task force to study user information requirements."

What happened next illustrates a fundamental difference between FASAB and its non-federal standard-setting counterparts. Concerned groups took it upon themselves to make sure that key members of Congress were (finally) made aware of the impact of the change. Alarmed House and Senate members—representatives of the people—then contacted one of FASAB's principals, the newly confirmed Comptroller General, David Walker, to find out just how far outside the box FASAB intended to go on this issue. Mr. Walker assured them that this issue would be put back into the box, and that he did not plan to acquiesce to the proposed change.

Part 7:

FASAB quietly retreated from its proposed elimination of defense PP&E value information. The ultimate defense PP&E outcome remains unclear. FASAB is still studying how best to account for defense PP&E and has recently decided to revisit the entire concept of "required supplemental stewardship information." It appears reasonably certain, however, that we will someday be able to look at the federal government's financial statements to determine how much of our tax dollars have been and are being invested in defense PP&E.

Perhaps more than anything else, the defense PP&E chapter in FASAB's history illustrates how difficult it is to establish new accounting standards for a unique entity's assets, liabilities, revenues, and expenses while being subjected to pressures from all directions—pressures from lawmakers, politicians, and media who seem to view an unqualified audit opinion as an end in-and-of-itself rather than as merely a reflection of having achieved fundamentally sound systems of financial accountability and managerial control. These pressures will only intensify from now on. Impatience to "get a clean opinion" will increase. FASAB's recent elevation to the status of the third body recognized as an issuer of "generally accepted accounting principles" will also increase both scrutiny and expectations.

Federal GAAP

Prior to October 19, 1999, the Federal Government's financial statements were prepared on an "other comprehensive basis of accounting" (OCBOA). This meant that FASAB standards were not generally accepted accounting principles, or GAAP.

The non-accountant might think that "a comprehensive basis of accounting" is better than accounting principles that are "generally accepted." But, many (including GAO) viewed OCBOA as indicative of a second-class status. It was becoming increasingly important to many for the Federal Government to be able say that its financial statements are presented fairly in accordance with GAAP. The GAAP designation generally denotes that these financial statements present the information that the public wants and needs in the manner that the public wants and needs and you can trust that no one has manipulated this information to confuse or mislead you.
In early 1998, therefore, GAO proposed amending Government Auditing Standards to stipulate that the standards promulgated by FASAB would be deemed to be GAAP. This put GAO on a collision course with AICPA, because AICPA has historically made the determination of the bodies that can be designated as GAAP standard-setting bodies. GAO agreed to hold off on adoption of its Government Auditing Standards change if AICPA agreed to put the issue of FASAB recognition on a fast track.

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AICPA put the issue on a fast track and, on October 19, 1999, the AICPA Council voted to recognize FASAB as the body responsible for defining GAAP for Federal agencies.

The GAAP designation is, in effect, just as important—perhaps more important—than the audit opinion itself. Of course, independence is the core attribute of the audit opinion. Take away independence, and the audit opinion has no value, no trust, no credibility, no validity.

It follows logically, therefore, that independence should also be the core attribute of GAAP. And it is. When AICPA established a task force to decide if FASAB standards should be GAAP, the first and most important of the five considerations it addressed was independence. (The other four were due process and standards, domain and authority, human and financial resources, and comprehensiveness and consistency.)

So, independence was the most important focus of the AICPA council in deciding to recognize federal GAAP. Let's look at the composition of FASAB before it achieved GAAP-standard-setting status: one member each from GAO, OMB, Treasury, the Congressional Budget Office, a defense or international agency (currently a person from DoD), a civilian agency (currently a person from NASA), and three non-federal members.

Six federal members and three non-federal members. Four of the nine work within the executive branch of government—the entity responsible for preparing and issuing federal financial statements—and serve at the will and pleasure of the President. Not very independent, was it? In theory at least, the President could direct these four employees to vote to change standards in a manner more amenable to getting a clean audit opinion.
Let's look at the composition of FASAB now that it has received GAAP recognition by AICPA: No change. That's right, AICPA said independence is the most important characteristic of a GAAP standard-setting body, focused intensely on what it viewed as FASAB's lack of independence, and then granted recognition to FASAB anyway. The cold reality was that AICPA realized that if the federal government wants to declare FASAB standards to be GAAP, AICPA could do little to prevent it from doing so.

Part 8:

Was this a total capitulation by the AICPA? No, not hardly. Negotiations between AICPA and the three FASAB principals (GAO, OMB, and Treasury) resulted in important changes. David Walker (head of GAO) summarized these important changes in a letter to the AICPA Council:

- FASAB will promulgate and issue all Federal accounting standards without requiring the express approval of all three principals (whereas before, all three principals had to approve a proposed standard before it became effective). (Any one of the three principals can still veto a standard.)
- All FASAB Steering Committee meetings will be public meetings.
- A search committee, including public members, will be established to assist in filling certain FASAB vacancies.
- FASAB will undertake a program to add to the common body of knowledge with regard to Federal accounting.

These points seem insignificant, especially because they don't directly or indirectly or remotely address that primary pesky concern—independence. But, the most important accomplishments of these sensitive negotiations may turn out to have been (1) the simple fact that the FASAB principals agreed to amend the memorandum of understanding that established FASAB, and (2) all parties adopted an unwritten "gentlemen's agreement" to work in the future toward a more independent FASAB composition. This latter point is still a little fuzzy in terms of who, how, what, and when. The undocumented agreement is that FASAB will "work toward achieving a composition of materially independent board members."

"Materially independent?" This new concept means, according to the AICPA Chairman, that active board members could still be individuals working for the executive branch of government as long as they work for agencies not a material part of the entire executive branch. Presumably, under this concept, the CFO of a small, minor agency would be better able to withstand political pressures to bend standards to the wishes of the President than the CFO of a major agency. The logic in that premise escapes me; but, that's where we are and where we are presumably heading on independence.

The fact that the MOU has been amended for the first time, however, sets an important precedent for future, maybe gradual, changes toward a more independent composition.
Of note, AICPA approved the FASAB-as-GAAP resolution over the strenuous objections of the heads of the other two GAAP standard-setting bodies, FASB and GASB, and the head of the Financial Accounting Foundation (FAF), the body that oversees and funds FASB and GASB. Their objections were based solely on the facts that (1) FASAB contains several members who clearly lack independence and (2) any of the FASAB principals—including the two who work directly for the President—can veto any standard.

Until board composition can be changed to include only independent members, the best protection we have against manipulation of the standards is public scrutiny. The public and members of Congress must be prodded to follow FASAB's deliberations closely and carefully and raise an alarm if FASAB proposes unsound standards or concepts. If, for example, FASAB proposes to omit the value of nearly $1 trillion of critical assets from disclosure requirements, we need to make sure that members of Congress and the general public are alerted. Likewise, if FASAB proposes to omit many trillions of dollars of long-term liabilities from the balance sheet, we need to make sure that Congress and the public get involved in that debate.

Part 9:

FASAB already has an open process. Unfortunately, few non-FASAB people attend FASAB meetings. Those of us with an abiding interest in assuring that we end up with meaningful accounting standards—the best accounting standards—need to redouble our efforts to make sure that FASAB's deliberations are tracked closely and understood widely.

In evaluating FASAB, AICPA worked from a FASB and GASB perspective. For FASB and GASB, independence is the all-important attribute. FASB and GASB both write standards for thousands of entities, each with relatively small groups of financial statement users. With only a small number of users for any single entity's financial statements, the independence of the standard-setters is the best means of assuring that sound standards are promulgated. FASAB, however, writes standards for a single entity—the Federal government. And that single entity has a large number of financial statement users—every taxpayer, citizen, and legislator in the country. That key difference means that public scrutiny of the FASAB process should serve as a much stronger control than the independence of FASAB's members.

The fact is that the entity for which the standards are being developed is a sovereign nation. The executive branch of this sovereign nation will not relinquish any standard-setting authority unless compelled to do so by its citizens. The FASAB structure will continue to lack independence until the public demands that Congress pass legislation requiring the establishment of an independent standard-setting body.

I predict that if we can bring enough light to the current standard-setting process, the strongest advocates of legislation to establish an independent board will be the current and past executive branch FASAB members themselves. These members will realize that, regardless of the honesty and integrity they each bring to their decisions, those decisions can and will always be criticized and subject to doubt simply because of the appearance that these board members lack independence. These members will realize that no matter how independent they try to be in their thinking and deliberating, one question will always be asked: Does she/he think this is the correct standard or has her/his decision been influenced by her/his governmental superiors?

For a board member who works for the executive branch, it's a no-win situation. Even if such a board member were to vote in opposition to the wishes of the member's government superiors, some would argue that she or he voted that way in an effort to assert an independent posture, rather than because it was the right position to take on the issue. As more and more financial statement users focus on FASAB's deliberations, non-independent board members will realize that their positions are awkward and untenable. They will become the strongest advocates for change to a wholly independent board.

FASAB has come a long way and accomplished a great deal. And it has learned valuable lessons along the way. The "more likely than not" dilemma showed the inevitable pitfalls associated with attempts to raise Federal standards higher in areas already dealt with by the other standard-setting bodies. The Paragraph 65.2 and defense PP&E sagas illustrate the risks of getting entangled in agency attempts to change the standards to help remove barriers to clean audit opinions.

So far, despite minor and rectified stumbles, FASAB has done a good job of adhering to the principle expressed in FASAB's concept statements and during many of the specific issue debates: FASAB's goal should be to establish standards that result in improved Federal financial management. That principle demands that Federal accounting standards be the best they can be, and wherever possible, better than standards for non-Federal entities.

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FASAB is at a critical point in its evolution. If it can remain focused on this guiding principle, close enough for government work will become a goal that others strive for rather than a late-show punch line.

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